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## ICFC-Boston 2000

Dates and place are fixed, delegates please note in your agenda now: The Ritz-Carlton Hotel in Boston, October 11-15.

For three topics the preparations have started,

- **Industry Response to Change**
- **Regional Analysis Americas**
- **Technology Updates**

For the topic **Industry Response to Change**, reference will be made to earlier studies in this field, also known as the bathtub model. Factors changed since then, present positioning, conditions for successful scenarios and new promising drivers will be explained. Also the workshop will try to touch industry concentration, economy of scale and related financial considerations, such as asset management. We may finish with some prophecies, what to expect and where to direct.

The **Regional Analysis** will present the wire and cable industry for North, Central and South America in a new format with a focus on the segmentation effects and highlight on specific conclusions. The full data package and graphics will be collated in a side document, available in Boston.

For **Technology Updates** the final program is still to be decided. The range is from News in Fibreoptics, via HVDC Light to Superconductivity, what is presently taking place at the technology front and what could be the impact?

With this business program, the requests and suggestions made in the questionnaires are followed up as close as possible.



# NEWSLETTER

## ICF Website

As a new service for "Members Only", an updated memberlist extended with link pages for Contact Persons has been added. Those who have access can find there the names, phone numbers and e-mail addresses as known at the ICF office.

When the website was started in August 1997 only 5% of the members were „on line“. Today it is over 85%, and this demonstrates how quickly the conveniences of Internet spread.

As a result from the rather hot M&A events, we meet some difficulty from time to time to keep track of changes. Please remember to inform us and contact [renate@icf.at](mailto:renate@icf.at).

## Market Segmentation in Practice

In last year's Hong Kong Congress we tackled the complex and controversial issue of market segmentation; what it means for the cable industry, its value, and how to go about it. In this brief article, we attempt to identify just how market segmentation statistics line up in practice. The analysis that follows is adapted from the BME/Metalica multi-client study *Long Term Copper: Prospects to 2010* and covers all metallic cables from 1990 onwards.

Firstly, a reminder why we should be interested in market segmentation. In Hong Kong we suggested that segmentation should be used to define the market, measure performance and, more importantly, address the value chain issues that determine whether or not individual enterprises, and the industry as a whole, are profitable. The value chain issues affecting each market segment are very different with regard to customer profile, opportunities for added value, competitive environment and growth prospects.

At its simplest level, we identify nine market segments defined by three product groups (energy cable, telecom/data cable and winding wire) and three application groups (which we label network, premise and OEM). In the table on page 3 we show how the wire and cable market is apportioned between these nine cells by region, taking data from 1990 and 1998.

Globally, metallic wire and cable consumption in 1998 was just short of 10 million tonnes. Of this, nearly 65% was energy cable, a share that had fallen very slightly

from 1990, when total wire and cable consumption amounted to just over 8 million tonnes of conductor. Perhaps surprisingly, the proportion of telecom/data cable rose slightly between 1990 and 1998 (from 14.9% to 15.4% of the metallic cable market), reflecting rapid growth in the data cable/internal telecom wiring segment. The three cable application groups are fairly well matched in size. In 1998 premise wiring accounted for an estimated 36.4% of the global market, the OEM sector 34.1% and networks 29.5%. The comparison with 1990 shows that while the premise segment is growing in share, that of networks has been falling. The OEM sector also showed a slight loss in share between 1990 and 1998 (from 34.7% to 34.1%), this mainly reflecting the collapse of the military-industrial complex in the Former Soviet Union.

There are important differences in regional market segmentation. The OEM sector is significantly more important in overall wire and cable industry profile in the "Asia" region (including Africa and Oceania) than in either Europe or the Americas. In Asia, OEM consumption in 1998 is estimated at 37.0% of the total market: this compares to a global total of 34.1%. The difference applies to both energy cable and winding wire products.

In contrast, Asia's premise segment is comparatively weak, and saw a slight decline in relative size between 1990 and 1998. The region's 32.0% market share in premise wiring compares to a global average of 36.4%. The relative weakness of premise wiring in Asia may seem surprising given the high rate of new construction in the developing parts of the region (although 1998 was by no means a good year!). It shows the great importance of higher wiring densities and refurbishment, rather than new building, in the mature markets of Western Europe and North America.

Our figures show that metallic cable use in networks, while suffering significant losses in share in Europe, still achieves nearly 30% share of the total wire and cable market. Energy cable use in networks even increased in share between 1990 and 1998. Asian demand is the real driving force in the network market. Despite the use of fibre optics and alternative telecom technologies, copper telecom cable use in Asia's networks rose from an estimated 290,000 tonnes of conductor in 1990 to 410,000 tonnes in 1998.

So, what of the future? Firstly, we do not believe that metallic cable in networks will keep its share of the wire and cable market. Outside plant copper telecom cable is

already a static market while, in the medium to long term, distributive power technologies pose a real threat to cable use in the electricity networks. Secondly, the premise market is expected to grow in share, especially in the telecom/data segment, as wiring densities in buildings increase. Thirdly, the OEM market should see robust growth, especially in winding wire, where a drive towards the more efficient use of energy should have a very positive effect on market volumes. Overall, we see metallic wire and cable use continuing to grow at a trend rate of around 3.2% p.a. over the next decade, similar to that achieved in the 1990s.

Growth in market volume is of little value alone, if it cannot be used to make a profit. The relentless fall in cable prices means that there is little point in producing ever-greater volumes of commodity products to be sold at commodity prices. In order to make a decent income it is becoming more necessary to identify and follow up on the specific opportunities that individual companies are best placed to exploit. Understanding the market through thorough market segmentation and measurement is part of this process. But more important is achieving the focus necessary to succeed in each market segment.

In this respect, we should take heart from the recent newsworthy events in the cable industry (see *News in Brief*). In its deals with BICCGeneral and Cisco, Pirelli has firmly positioned itself as a leader in the global power network business while at the same time achieving greater

focus on its mainstream cable business in the telecom area by passing its optical systems interests on to a strategic partner. BICCGeneral has also achieved greater focus as, by selling some of its international business, it

**Cable Market Segmentation ('000 tonnes conductor and %)**

<b>Asia, Africa &amp; Oceania</b>								
	1990			1998				
	Energy Cable	Telecom Cable	Winding Wire	Energy Cable	Telecom Cable	Winding Wire		
Network	475 16,0%	291 9,8%	113 3,8%	722 17,5%	413 10,0%	146 3,5%		
Premise	827 27,8%	83 2,8%	57 1,9%	1062 25,7%	174 4,2%	85 2,1%		
OEM	599 20,1%	31 1,0%	501 16,8%	817 19,8%	52 1,3%	662 16,0%		

  

<b>Europe</b>								
	1990			1998				
	Energy Cable	Telecom Cable	Winding Wire	Energy Cable	Telecom Cable	Winding Wire		
Network	584 19,5%	319 10,7%	112 3,7%	513 19,5%	173 6,6%	101 3,8%		
Premise	831 27,8%	64 2,1%	44 1,5%	853 32,4%	106 4,0%	57 2,2%		
OEM	569 19,0%	41 1,4%	424 14,2%	470 17,9%	40 1,5%	319 12,1%		

  

<b>Americas</b>								
	1990			1998				
	Energy Cable	Telecom Cable	Winding Wire	Energy Cable	Telecom Cable	Winding Wire		
Network	286 13,8%	228 11,0%	65 3,1%	455 14,7%	290 9,4%	95 3,1%		
Premise	717 34,7%	101 4,9%	47 2,3%	986 31,8%	200 6,4%	66 2,1%		
OEM	329 15,9%	42 2,0%	250 12,1%	520 16,8%	70 2,3%	419 13,5%		

Source: Metalica

is better placed to concentrate on its core United States business. In fibre optics, Corning has recently emerged as a much more powerful force. Through its recent acquisition of Siemens' cable assets, it has clearly positioned itself as a global leader in fibre optic cable. It is important to note, however, that the \$1.4 billion Siemens deal occurred alongside a \$1.8 billion deal with Oak Industries and a \$2.0 billion deal with Netoptix, both concerning optical equipment. Corning appears determined to become an integrated total solutions provider rather than just a supplier of cable. The revenue growth and profitability of Corning, and companies like it in the OEM wire segment, suggest that maybe there are some lessons to be learnt here for the cable industry as a whole.



## News in Brief

(provided by Metalica, UK)

**Corning Acquires Siemens Cable Assets:** In a deal announced on December 8th **Corning Incorporated** acquired the **Siemens AG** worldwide optical cable, hardware and equipment and fibre business for \$1.4 billion, including assumed debt. The deal was finalised on February 2nd. The acquisitions include Siemens' 50% stake in two optical fibre co-investments in the United States and Germany, **Siecor Corporation** and **Siecor GmbH**, also **Siemens' Communications Cables Division**, **RXS Kabel Garnituren GmbH** and **Norddeutsche Seekabelwerke GmbH** in Germany, **RXS Morel** in France, **Teleco Cavi** in Italy and **Siemens Fiber Optical Kablolari** in Turkey, together with certain related assets in Argentina, Australia and the United States. Corning is to integrate its worldwide optical cable, hardware and related business into a new operating unit called **Corning Cable Systems**. The new unit will incorporate the former BICC-owned **Corning Cables** alongside the Siemens' and Corning's own pre-existing assets into a grouping with annual sales of \$2.2 billion and approximately 12,600 employees worldwide.

Corning Incorporated is engaged in a major expansion programme, of which the Siemens acquisition is part. In February the company also announced a \$0.75 billion investment in optical fibre facilities, raising capacity by 50%. The investment will be directed at plants in Wilmington and Concord in South Carolina in the United States and Noble Park in Victoria, Australia. Other recent Corning expansions include a \$2 billion purchase of optical filter manufacturer **Netoptix** in February 2000 and a \$1.8 billion merger with phototonics technology company **Oak Industries** in the previous November.

**IWG Expands Further in Europe:** United States' OEM wire and wire harness manufacturer **International Wire Group** has acquired the **Forissier Group** holding company for French wire producers **T.J.Forissier SA** and **Fressyenet**, both manufacturers of speciality drawn wire products based in Saint-Charmond, and insulated wire producer **Charbonnet SA** of Beynost. The acquisition follows that of Italian wire producer **Italtrece S.r.l** in 1999 and is considered by IWG to be a major step in securing a global presence in its market segments.

**BICCGeneral Sells International Energy Cable Assets to Pirelli.** On February 9th US-based **BICCGeneral** entered

into a definitive agreement with **Pirelli Cavi e Sistemi** of Italy for the sale of a large part of its European, African and Asian energy cable operations for \$216 million. The business units being sold were acquired from **BICC plc** mid-1999 and include 11 plants in the UK and Italy as well as factories in Africa and Asia, including joint ventures in Malaysia and China. BICCGeneral will retain former BICC businesses in North America, Spain, Portugal, New Zealand and Indonesia and high temperature and fire retardant cables business in the UK. The units being sold, which employ 3,500 staff and generated turnover of Euro 700 million in 1999, made a loss on a historical cost basis last year. The acquisition is expected to raise Pirelli's annual energy cable business revenue to Euro 3,400 billion.

**Pirelli Restructures Telecom Activities:** In a new strategic alliance with **Cisco Systems**, **Pirelli Cavi** will sell to Cisco its terrestrial optical systems business for \$2.15 billion and also a 10% stake in its optical components and submarine optical transmission systems division for \$100 million. Pirelli sees the move as an opportunity to focus on its core business in optical fibre, optical cables, optical components and submarine optical systems.

**Fate of Kaiser Kwo Finally Decided:** Days after its deal with Pirelli, **BICCGeneral** announced the sale of its 50% stake in **Kaiser Kwo Telecommunication GmbH & Co KG** in Berlin, Germany, to its joint venture partner **Draka Holding N.V.** In a related transaction, BICCGeneral agreed to purchase Draka's 50% share in **Kaiser Kwo Energie GmbH & Co KG**. BICCGeneral intends to close this energy cable business, which has sustained losses for several years. BICCGeneral acquired the Kwo cable interests as part of its deal with **BICC plc** in 1999.

**SuperiorEssex Continues Rationalisation:** **Superior TeleCom Inc.**, parent of **SuperiorEssex**, has signed a letter of intent to sell its industrial wire plant in Pawtucket, Rhode Island to **American Insulated Wire**. The move is one of a series of divestments of non-core assets since the acquisition by Superior of US wire and cable producer **Essex Wire** last year.

The ICF Newsletter is published several times each year by The **International Cablemakers Federation**, P.O.Box 26, A-1014 Vienna

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